



Alabama Credit Union League

April 6, 2009

National Credit Union Administration
Mary Rupp, Secretary of the Board
1775 Duke Street
Alexandria, VA 22314

Subject: Comments on Advance Notice of Proposed Rulemaking for Part 704

Dear Ms. Rupp:

On behalf of the Alabama Credit Union League, and the 143 credit unions we represent, I am pleased to offer these comments on the Advance Notice of Proposed Rulemaking for Part 704, relative to corporate credit union structure, authority, and operations.

Background Issues

The issues surrounding the problems experienced by some corporate credit unions, and the agency's response to those problems is complex and there is no easy solution moving forward. However, we would strongly urge the NCUA to proceed with caution in any action it may take. We see a significant danger in wholesale changes designed to solve the most recent problem. Regulating to the last crisis is common, and has historically resulted in the creation of new unintended problems. Our first comment therefore is that the NCUA should move deliberately, looking not just back at this problem, but at what effect any action may have in the future. We would encourage the NCUA to work with credit unions and with CUNA and the Leagues to develop any future regulatory action or structure.

In a related matter, the NCUA must show a willingness to work with credit unions in resolving this and future issues. It is, after all, credit unions that are being required to fund any action by the NCUA as well as cover any losses to the NCUSIF. Because of this vested interest in the actions of the NCUA, the agency must be as transparent as possible. The credit union community was very disappointed that significant amounts of information were not available regarding the activities of PIMCO, the assumptions they were given in their review of corporate credit unions, and the possibility of their acquiring certain assets. While we understand that there are instances in which certain information must remain confidential, we do not believe that the NCUA has been as forthcoming with information as an issue of this magnitude dictates is necessary. A lack of reliable information, conflicting press reports, and even the possibility of legal action, are counter to the need for confidence and stability at a time when it is most needed for the corporate credit union system. We would encourage the NCUA to develop a more transparent environment.

Finally, in the area of actions by the NCUA, we encourage the agency to work closely with the national credit union system in making the case to Congress for necessary authority and statutory changes. We are very pleased to see the proposed legislation to create a separate fund through the

NCUSIF to absorb the losses to the insurance fund, which will give credit unions and the NCUA more flexibility in bringing the fund back to the required level. It is vital however, that leadership at the agency be proactive in making the case to Congress about the issues we all face, and the needs of the agency in resolving issues. We have heard from some Congressional leaders that the NCUA has not been as proactive as other regulatory agencies in communicating to Congress. We understand the difference between an industry lobbying Congress and a regulatory agency lobbying another branch of government, but Congress must be made aware of the issues facing the NCUA and credit unions. We hope your offices will maintain open lines of communication with CUNA, and develop a sound legislative proposal and work together to seek its passage.

Corporate Credit Union Specific Recommendations

The ANPR specifically asks about the advisability of a two-tier corporate credit union system, with “wholesale” and “retail” corporate credit unions. While some of the problems within the corporate credit union system can be attributed to the actions at a handful of larger “wholesale” corporate credit unions, we would strongly advise against precipitous action in changing the system. As with natural person credit unions, there are advantages and disadvantages to large vs. small institutions, and simplified vs. complex services. Each has a role to play, and the current situation should not be the catalyst for dismantling the system. That said, there are certain steps that should be taken to prevent a recurrence of the current problems.

Corporate credit unions serve an important function in providing investment services to credit unions. However, because natural person credit unions cannot make some of the investments permissible through corporate credit union, there must be greater oversight and control. If there is sudden market volatility resulting in a loss to the Insurance Fund, then it is credit unions who bear the risk of loss. While investment services are important, there must be greater oversight and control. Many credit unions question how the problems at U.S. Central could have gone unchecked until it was too late, given that the NCUA had a full time examiner on site at the credit union. We encourage the NCUA to develop a system of required stress testing, and some form of risk-based capital standards requiring greater levels of capital for the riskier investments. There simply needs to be a greater cushion against sudden market stresses, and an ongoing proactive assessment of how future stresses might affect different corporate investment portfolios.

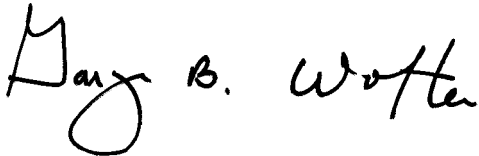
The ANPR asks if national fields of membership for corporate credit unions are appropriate. As with the distinctions between “wholesale” and “retail” corporate credit unions, there are advantages and disadvantages to fields of membership as well. We would again encourage the NCUA to not make sweeping changes to the existing system, but to make necessary improvements in the existing system. Specifically, we believe that in addition to the use of rating agencies, corporate credit unions should be required to seek multiple ratings for their investments. Multiple ratings, in conjunction with ongoing stress testing, will give a clearer picture of the condition of different investments both at any current point in time, as well as in the future.

We appreciate the NCUA seeking the guidance of the entire credit union system in this important issue. We hope the NCUA will listen carefully to the comments on this ANPR, as well as through less formal lines of communications within the credit union movement, as you develop the proposed changes. There is much that must be addressed, especially in the areas of transparency, oversight, and control, but we encourage the agency to not make unnecessary sweeping changes to the entire

corporate credit union network that go beyond solving the problems that led to this situation. If more action is found to be required, then it should certainly be pursued. However, we ask the NCUA to be mindful of precipitous action leading to unintended consequences that lead to new problems. We suggest a staged approach to dealing with the issue of corporate stabilization. First, seek avenues to resolve the NCUSIF liability with as little negative impact on credit unions as possible. Second, institute a system of transparency and control at both the NCUA and within the corporate network to ensure stability and confidence. Once those goals have been accomplished, the NCUA may wish to consider broader systematic reforms, but only with significant input from the entire credit union system.

Again, thank you for the opportunity to comment on this critical issue. We look forward to more communications from the NCUA as we move forward in addressing the situation.

Sincerely,

A handwritten signature in black ink that reads "Gary B. Wolter". The signature is written in a cursive, flowing style. The first name "Gary" is written with a large, looped 'G'. The middle initial "B." is written in a smaller, simpler script. The last name "Wolter" is written with a large, looped 'W' and a trailing flourish.

Gary B. Wolter,
President and CEO